MENTAL HEALTH SERVICES ACT HOUSING PROGRAM
TERM SHEET/PROGRAM DESCRIPTION

Program Description	The **Mental Health Services Act Housing Program (MHSA Housing Program)** offers permanent financing and capitalized operating subsidies for the development of permanent supportive housing, including both rental housing and shared housing, to serve persons with serious mental illness who are homeless, or at risk of homelessness (as defined by the MHSA Housing Program), and who otherwise meet the MHSA Housing Program target population description. This program is jointly administered by the California Housing Finance Agency (CalHFA) and the Department of Mental Health (DMH).
Permanent Loans	• The MHSA Housing Program will fund one-third of the costs of a Rental Housing Development up to a maximum of $100,000 per MHSA Housing Program unit (“apartment”), as adjusted annually. • The MHSA Housing Program will fund all of the costs of a Shared Housing Development up to $100,000 per MHSA Housing Program unit (“bedroom”) as adjusted annually, provided that each bedroom is restricted for rental to an MHSA eligible resident. Developers will not need to supplement MHSA Housing Program funds with other capital sources in Shared Housing Developments unless the costs exceed $100,000 per bedroom. • The above two amounts will be adjusted each year by a 4.83% inflation factor beginning January 1, 2009. • Permanent loan proceeds will be available at construction loan closing or permanent loan closing or at acquisition if no rehabilitation or new construction is required. • Permanent loan proceeds may be used for allowable costs associated with the acquisition and development of the property, including reimbursing the developer for predevelopment costs and acquisition costs. Permanent loans will be secured against the property and the improvements by a promissory note, a deed of trust and a Regulatory Agreement. • Permanent loan limits will be based on the number of units restricted to MHSA eligible residents and not on the total number of units in the proposed development. • MHSA Housing Program loan funds may trigger prevailing wage requirements. Applicants are advised to consult their attorney on this issue.
Fees, Rates and Terms	• Origination Fee: 1% of the MHSA permanent loan amount, which will be due at MHSA Housing Program permanent loan closing, or predevelopment loan closing, whichever occurs sooner. • A servicing fee of 0.42% of the original principal balance of the permanent loan shall be due and payable annually. This fee shall be paid to CalHFA for administrative services. • Accrued interest and principal payments will be made on an annual basis from net cash flow (residual receipts).

	• All residual receipts payments received by CalHFA will be credited to the development and deposited back into the respective county's sub-account. • The interest rate on Rental Housing Developments will be fixed at 3% simple interest but may differ if tax credits are involved. When tax credits are involved, interest rates may be set lower than 3%, provided the applicant demonstrates that an interest rate reduction is necessary for tax-related reasons. • Interest rates on Shared Housing Developments will be fixed at 3% simple interest. • The loan term for both Rental Housing Developments and Shared Housing Developments shall be 20 years, or longer if required by other funding sources or if tax credits are involved. Upon the request of the developer, the loan term may be extended to up to 55 years. The developer may request an extension of the loan term in its application or at any time prior to final commitment of the loan. The Regulatory Agreement shall be extended to match the longer loan term. • The payment of unpaid interest and principal will be due and payable upon completion of the loan term. • If MHSA permanent loan proceeds are disbursed at construction loan closing, no loan interest will accrue during the construction period, but the 0.42% servicing fee will be charged during that time period, and the first two years of servicing fees will be due as a lump sum in advance at the time of construction loan closing. • If MHSA permanent loan proceeds are not disbursed until construction is complete, one year of the 0.42% servicing fee shall be due as a lump sum, in advance, at permanent loan disbursement. • The interest owing upon loan maturity will be treated in one of the following ways for rental and shared housing developments. ❖ Accrued interest will be due and payable for a development that has received an allocation of low income housing tax credits. ❖ Accrued interest shall be due and payable for all developments with the following exceptions: ➢ The development was used in accordance with the MHSA Housing Program regulations and the Regulatory Agreement throughout the term of the loan, and the terms of the loan and the Regulatory Agreement are extended for a term acceptable to CalHFA. ➢ The development is sold at loan maturity and CalHFA determines that the sale proceeds are invested in another property that has like use, has a like number of MHSA units, is encumbered by a Regulatory Agreement, and is secured by a new note and deed of trust in an amount equal to or greater than the original MHSA Housing Program permanent loan. • If applicable, the loan term for Rental Housing Developments with HUD 811 loans shall be consistent with HUD requirements.

Approved Housing Types	• Both Rental Housing Developments and Shared Housing Developments are permitted as defined below. • Master leasing is not allowed.
Shared Housing Developments	• A Shared Housing Development is a residential building that contains one or more traditional residences. All bedrooms in a Shared Housing Development shall be occupied by an MHSA eligible resident. • For purposes of the MHSA Housing Program, a bedroom in a Shared Housing Development is a unit. Each residential housing unit funded by the MHSA Housing Program must be occupied by an MHSA eligible resident, as determined by DMH and the sponsoring county mental health department. • All residences in a Shared Housing Development shall be rented to and shared by two or more unrelated adults, each of whom is a member of the MHSA Housing Program eligible residents. • While this program is intended primarily for unrelated adult house-mates, nothing in this definition excludes the spouse, adult partner, and/or child of an MHSA eligible resident from sharing the bedroom of the eligible resident, up to housing occupancy limits. • To qualify for funding, a Shared Housing Development must provide a lease and a separate lockable bedroom for each MHSA eligible resident; the MHSA eligible resident must be responsible for paying rent; and all bedrooms in each residence must be occupied by an MHSA eligible resident. • Each Shared Housing residence must also contain a living area, a kitchen and full bathroom. Kitchens and living rooms need to be appropriately sized to accommodate the number of residents in each residence. • Each residence with three bedrooms shall contain a minimum of a bathroom and a half-bath. Residences with four or five bedrooms shall contain two full bathrooms. A bathroom shall consist of a toilet, sink and shower and/or bathtub. A half-bath shall consist of a toilet and a sink. • The maximum number of bedrooms per Shared Housing residence is five. • A Shared Housing Development may consist of a 2- to 4-unit building, provided that all units (bedrooms) in the building are targeted for use as Shared Housing. • Single-family homes, condominiums, and half-plexes may also qualify as a Shared Housing Development provided that they have a minimum of two bedrooms. • Shared Housing Developments cannot be located in Rental Housing Developments.
Rental Housing Developments	• A Rental Housing Development is an apartment building or buildings with no less than five residential units restricted for rental to MHSA eligible residents. • In buildings with 5 to 100 units, at least 10% of the units, but no fewer that 5

	units per development, shall be set aside for MHSA eligible residents. In buildings with more than 100 units, a minimum of 10 units must be set aside for MHSA eligible residents. • Each MHSA Housing Program unit in a Rental Housing Development must have a lease signed by all adult members of the household. The lease must contain language that the unit must be occupied by an MHSA eligible resident. • Each MHSA Housing Program unit must be occupied by an MHSA eligible resident, as determined by DMH and the sponsoring county mental health department. • Rental Housing Developments may include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for homeless youth, as defined by California statute. • All units in a Rental housing Development shall include, at a minimum, a living area, a sleeping area, a kitchen area and a bathroom. The kitchen area shall at a minimum consist of a sink, refrigerator, cupboard space, counter area, microwave or oven, and a two-burner stove or built-in cook top. • Each unit with three bedrooms shall contain a bathroom and a half-bath. Units with four or more bedrooms shall contain two full bathrooms. A bathroom shall consist of a toilet, sink and shower and/or bathtub. A half-bath shall consist of a toilet and a sink. • All Rental Housing Developments will be required to have adequate space for supportive services staff and service programs. Exceptions may be made for existing buildings where this requirement is not feasible. • One unit may be made available for a manager's unit. • If there are other household members occupying the unit who are not MHSA eligible residents, and the eligible resident no longer resides in the unit, regardless of the reason, the other household members may continue to occupy the unit if the Rental Housing Development is a mixed-population development and the housing provider is able to supply a newly vacant non-MHSA Housing Program unit in the same development to an MHSA eligible resident. If the development is a single-population development, or if no non-MHSA Housing Program vacant units are available, the other household members may continue to occupy the unit for a grace period of 90 days. Capitalized operating subsidies, (if applicable to the development), will continue through the end of the grace period. During this grace period, the housing provider will work with the remaining household members to find alternate housing accommodations. If the remaining household members do not find alternate accommodations within the grace period, the Borrower shall start eviction proceedings. [This policy is similar to that of HUD's Housing Opportunities for Persons with AIDS (HOPWA) program requirements.]
Applicants	• Applications shall be submitted to DMH and CalHFA via county mental health departments, which shall apply for funding in conjunction with and on behalf

	of a qualified developer/borrower. • The submission by the county mental health department will signify the county's approval of all of the following; ❖ The capital funding request for the development, ❖ The capitalized operating subsidy funding request for the development, (if applicable), ❖ A commitment by the county mental health department to provide funding for supportive services for the residents of the development who are MHSA eligible residents for the term of the MHSA Housing Program loan, and ❖ Other items, to be determined, as required by DMH.
Qualified Developers and Borrowers	• Qualified developers include: ❖ Developers with a track record of successful affordable housing development and a history of serving the target population, ❖ Developers with a track record of successful affordable housing development but with no history of serving the target population, but with a strong contract or Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developers to house the target population, ❖ A qualified supportive services provider with a joint venture developer partner with a history of successful affordable housing development, who has entered into a strong contract or Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants who have a history of successfully working with similar joint venture partners to house the target population, ❖ A qualified supportive services provider with a qualified development team that has a history of successful affordable housing development and that has entered into a contract or Memorandum of Understanding (acceptable to CalHFA) with a qualified property manager, ❖ An affiliate of the local redevelopment agency, an affiliate of the local housing authority created to hold MHSA Housing Properties or other appropriate agency of the county created to hold properties financed by the Mental Health Services Act, with a staff or development team with a strong track record of successful development of affordable housing, and a history of working with the target population, or ❖ An appropriate agency of the county. • The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the development, and for their ability to partner with a lead service provider or service providers to deliver high-quality services to the target population. • The borrower must be legally organized as one of the following:

	❖ A limited partnership (LP). The managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member or members are 501(c)(3) corporations; ❖ A 501(c)(3) corporation; ❖ An LLC whose sole member or members are 501(c)(3) corporations; ❖ An affiliate of a local redevelopment agency; ❖ An affiliate of the county created to hold properties financed with MHSA Housing Program funding; or ❖ An affiliate of a local housing authority created to hold MHSA Housing Program properties. • The borrower also must be organized as either ❖ A single asset entity (in the case of a LP or LLC), or ❖ A separate legal entity that only holds properties that have MHSA Housing Program funding, as appropriate.
MHSA Loan Allocations Per County	• Each county will have MHSA Housing Program capital and capitalized operating subsidy funds allocated to them by DMH. The permanent (capital) loans and capitalized operating subsidy awards made under the MHSA Housing Program in a given county will be limited to the funds available to each county under the DMH allocation formula, plus any interest earned on the county-specific funds while they are being held by CalHFA. • Initially, $400 million will be available to counties for this program. • Nothing shall prohibit county mental health departments from utilizing other available funds for this program to supplement their MHSA Housing Program allocations.
Small Counties	• Eight percent of the total funds allocated to the MHSA Housing Program by DMH will be allocated for small county applications under this program. The MHSA funds set aside for small counties are currently estimated to be approximately $32 million of the available $400 million initial allocation. • To be identified as “small,” the county must have 200,000 or fewer residents in accordance with MHSA requirements, based on the most recent census. • The application process will be the same for large and small counties. However, CalHFA may waive some of the program requirements for small county applications. Requests for waivers will be reviewed on a case-by-case basis. • County specific funds may be combined by small counties to create developments that serve regional needs. • While it is anticipated that the MHSA Housing Program is sufficiently flexible to meet the needs of small counties, alternate program provisions may be developed if they are needed to address the unique needs of small counties.

Allowable Non-MHSA Funding Sources	• The MHSA Housing Program will fund one-third of the costs of the MHSA Housing Program units in a Rental Housing Development up to a maximum of $100,000 per MHSA Housing Program unit. Two thirds of the costs must come from other sources. • The applicant must provide 100% of the capital costs of the non-MHSA Housing Program units from other sources. • 100% of the capital costs of Shared Housing Developments up to $100,000 per bedroom will be provided by this program, provided that each bedroom is occupied by an MHSA eligible resident. • Capital costs above the MHSA Housing Program funding limits for Rental Housing Developments and Shared Housing Developments may be obtained from grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. • MHSA Capitalized Operating Subsidy Reserve (COS) funds may not be used to make amortized debt service payments, or residual receipts payments. However COS may be used to make the 0.42% required annual debt service payment for HCD MHP loans, provided that the payment is in proportion to the number of units in the Development which receive COS funds. • Fully amortizing loans will be allowed for those Rental Housing Developments or Shared Housing Developments that do not receive capitalized operating subsidies from the MHSA Housing Program, provided they have other rental subsidies that are high enough to support the debt. • Fully amortizing loans will be allowed for Rental Housing Developments that receive MHSA Housing Program capitalized operating subsidies if all of the following conditions are met: ➢ Rents on the non-MHSA Housing Program units are high enough to fully support amortizing debt, and ➢ Annual operating budgets and annual audits are bifurcated sufficiently to ensure that the amortizing debt payments are not being paid from MHSA Housing Program units subsidized with capitalized operating subsidy reserves. • Developers are advised to consult their attorneys regarding potential legal conflicts between different housing funding sources.
Subordinate Financing	• Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility. • The MHSA Housing Program Regulatory Agreement and Loan Documents may be subordinate to conventional construction loan documents, fully amortizing permanent loans, and HUD 811 Use Agreements and loan documents. Subordination to other HUD documents may be considered on a case-by-case basis • The MHSA Housing Program permanent loan may be subordinate, upon CalHFA approval, to other residual receipts/deferred permanent loans from

	federal and local sources, provided that those loans are twice the amount of the MHSA Housing Program permanent loan or larger. • All other loan documents, loans, leases, recorded use agreements, and recorded grant agreements must be subordinate to the MHSA Housing Program permanent loan documents and Regulatory Agreements. • When loans are provided by both HCD and the MHSA Housing Program, the HCD Regulatory Agreement may be recorded after the MHSA Housing Program Regulatory Agreement and prior to the MHSA Housing Program permanent loan documents. • The HCD/MHP housing program and the MHSA Housing Program may enter into a "risk-sharing agreement" regarding the pro rata disposition of assets upon foreclosure.
Rent and Occupancy Requirements	• All MHSA Housing Program units must be targeted for occupancy by at least one MHSA eligible resident. An eligible household is a household that has at least one MHSA eligible resident • Rents in MHSA Housing Program units in both Rental Housing Developments and Shared Housing Developments must be restricted to 30% of 50% or less of the area median income (as adjusted by household size). • For units with MHSA Housing Program capitalized operating subsidy reserves, the tenant portion of the rent must be set at 30% of the current SSI/SSP grant amount for a single individual living independently, or 30% of total household income, whichever is higher (up to 50% of area median income). • If operating and/or other rental subsidies for the MHSA Units are expected to be exhausted prior to the maturity date of the original program loan, the Borrower may submit a plan fro transition of the use of these Units to CalHFA. The plan shall be submitted at least two years prior to the expected depletion of the subsidies. The plan shall include, but not be limited to the following: ❖ An explanation of the efforts the Borrower has made to secure subsidies necessary to sustain the MHSA Units from other sources. ❖ An explanation of the fiscal necessity of adjusting the number or use of the designated MHSA Units. ❖ A process for increasing the rent and continuing to market and rent the MHSA Units to members of the Target Population who do not require subsidies. ❖ The plan for continuing, throughout the term of the MHSA Program loan, to apply for other subsidies, renewal of subsidies, and/or applications to the County for additional funds to subsidize the rental of MHSA Units to members of the Target Population. ❖ Approval of the Borrower's plan based on an assessment of all available information and a review of the Development's overall financial feasibility. Rent increases in 30% of 50% of AMI will not be approved. The approval will be conditioned on the Borrower's commitment to continue to seek

	other subsidies and market to the Target Population.
Reserve Requirements	• A minimum of three months of the first year's anticipated operating cost, but no more than 100% of anticipated first year's operating costs, must be capitalized as an operating reserve. This reserve may be held by CalHFA for the term of the MHSA Housing Program loan. • A rent-up reserve may be capitalized, as determined by CalHFA based on an independent market study and/or appraisal. The rent-up reserve may be waived by CalHFA based on the number of units that have been leased prior to permanent loan closing. • A minimum replacement reserve deposit of $1,000 per Rental Housing Development unit must be capitalized at permanent loan closing for acquisition/rehabilitation developments. This may be limited to MHSA Housing Program units at CalHFA's discretion. • A minimum replacement reserve deposit of $500 per Shared Housing Development unit must be capitalized at permanent loan closing for acquisition/rehabilitation developments. • There are no capitalized replacement reserve deposits requirements for new construction at the time of funding of the permanent loan. • Up to $3,000 per unit of replacement reserves may be capitalized if funds are available in the development budget. • Minimum annual replacement reserve deposits of $500/unit/year per Rental Housing Development unit shall be required from operating cash flow. • Minimum annual replacement reserve deposits $100/unit/year per Shared Housing Development unit (bedroom) from operating cash flow. • These amounts may be revised from time to time by CalHFA.
Allowable Costs and General Requirements	• All costs normally allowed as development costs for supportive housing by CalHFA are allowable costs for MHSA Housing Program loans. • Developer fees may be no higher than those allowed by TCAC and will be reviewed individually for appropriateness. • If the Development received a capitalized operating subsidy reserve award, ground lease payments must be capitalized in the development budget, and cannot be amortized over the term of the loan. • All developments will be required to apply for the "welfare tax exemption" (property tax exemption), and will be required to maintain that exemption for the term of the loan.
MHSA Capitalized Operating Subsidy Reserve	• The borrower and the county mental health department may apply for a reservation of capitalized operating subsidies for the MHSA Housing Program units up to a maximum of $100,000 per unit. • Starting on January 1, 2009 the capitalized operating subsidy reserve

	amount will be adjusted each year by a 4% inflation factor • Only the operating costs of MHSA Housing Program units may be subsidized with capitalized operating subsidies. Non-MHSA Housing Program unit costs, including supportive services costs, are not eligible costs and must be accounted for in a separate, bifurcated annual budget. • Capitalized operating subsidies will not be available for developments that do not receive permanent loan funds from the MHSA Housing Program. • Capitalized operating subsidy reserves will be sized to allow for operating subsidies for up to 20 years. ❖ A development's capitalized operating subsidy reserve will be sized based on a review of the difference between the tenant portion of the rent and operating expenses in the proforma first-year operating budget, an annual income escalator and an annual cost escalator. ❖ Interest earnings on the reserve over the term will be factored into the amount of available subsidy. ❖ See the Subsidy Calculator on CalHFA's website for current escalators and an estimate of project specific subsidy. • Capitalized operating subsidies will be capitalized at permanent loan conversion or closing and held by CalHFA in an interest-bearing reserve account for the benefit of the MHSA units. • Capitalized operating subsidy reserves are for use by MHSA units only and will not be the property of the development. • Capitalized operating subsidy reserve awards will be made at loan commitment but will be conditioned upon a demonstration, prior to permanent loan closing, that the developer has applied in good faith for other available rental housing subsidies for the development, and been unsuccessful in its application(s). Developers will be asked to identify in their applications the rental subsidy source or sources for which they have applied for or which they are planning to apply for and why they are pursuing that source or sources. The determination of the appropriateness of the source or sources will be made during the underwriting process. Documentation of good faith application to the alternate source or sources will be required during the underwriting process. Developers will only be required to apply for other subsidies in one award cycle. • Developments that receive rental or operating subsidy contracts from other sources may also apply for a back-up award for MHSA Housing Program capitalized operating subsidies for the time period not covered by other subsidy contract(s), or for any shortfall not covered by other subsidy awards during their term(s), provided that they agree to apply for all available extensions of subsidy contract(s). • Developments that receive rental or operating subsidy contracts from other sources for less than the total number of MHSA units may apply for COS reserves for the remaining MHSA units, provided that they agree to apply for all available extensions of subsidy contract(s).

Use of MHSA Capitalized Operating Subsidy Reserve (COS)	• Capitalized operating subsidies will become available at the point the development receives its Certificate of Occupancy for new construction projects, or at recorded notice of completion for acquisition-rehabilitation projects. • Capitalized operating subsidies will be disbursed quarterly, in advance. The first advance will include a per diem of the capitalized operating subsidy from the completion date to the first day of the next quarter. • The first advance of capitalized operating subsidies includes the anticipated tenant portion of the subsidized rent for one full year. This will allow the borrower to assist the MHSA eligible residents in applying for SSI and other available sources of income. This additional subsidy is intended to make the project whole while residents are going through the SSI application/appeal process. Note: the intent is for these funds to be recycled. Borrowers are advised to include clauses in their leases that require the tenants to reimburse them for back rent due when they begin to receive SSI disability benefits. • The capitalized operating subsidy payments will be reconciled with actual operating costs every year. • No distributions of surplus cash or residual receipts may be made to the borrower for non-project purposes from excess capitalized operating subsidies. Any surplus cash attributable to the capitalized operating subsidies, based on the annual audit, must be held by the development for the next year's operating expenses and the next year's capitalized operating subsidies allocation will be adjusted accordingly. • Capitalized Operating Subsidy Reserve (COS) shall be used to pay: ❖ Approved Operating Expenses in excess of actual Development income attributable to the COS MHSA Units. ❖ The annual servicing fee of 0.42% attributable to the MHSA capitalized operating subsidy units. ❖ The balance of the COS may be used to pay the following, if funds are available within the $100,000 per unit cap after operating expenses and the 0.42% annual servicing fee have been paid, in the priority order specified below: ➢ If the development has a HCD Multifamily Housing Program (MHP) loan, the 0.42 percent required annual interest payment of the principal amount of the MHP loan, attributable to the COS MHSA Units. ➢ Annual bond issuance fees, if any, attributable to the COS MHSA Units. ➢ Asset management fees of up to $30 per month per COS MHSA Unit, up to $18,000 per Development per year, as adjusted for inflation. ➢ An annual Operating Reserve deposit not to exceed three percent (3%) of anticipated gross income for the relevant year attributable to the COS MHSA Units.

	➢ Deferred Developer fees, if any, attributable to the COS MHSA Units. ➢ Service coordinator salaries and benefits attributable to the COS MHSA Units. • Capitalized Operating Subsidy Reserve shall not be used to pay for amortized debt service payments, ground lease payments, asset management fees or partnership management fees in excess of the proportional share of the $18,000 per development allowed in the MHSA Housing Program as adjusted for inflation, the operating costs of any non-MHSA Unit, the operating costs of any MHSA Units for which the Borrower did not apply for and receive a COS award, cash distributions to the Borrower, residual receipts payments to other lenders, lump sum pay off of other loans.
Occupancy Requirements, and Reduction or Termination of MHSA the Capitalized Operating Subsidy Reserve	• Occupancy will be reviewed annually for compliance with MHSA regulations. • Capitalized operating subsidies will be reduced or terminated for developments that do not rent their MHSA Housing Program units to MHSA eligible residents. • Capitalized operating subsidies will be reduced or terminated for MHSA Housing Program units when the MHSA eligible resident has a housing choice voucher (HCV), absent mitigating circumstances. • Capitalized operating subsidies will be reduced or terminated for MHSA units that receive project-based rental subsidies from other sources. • Capitalized operating subsidies are only available while an MHSA eligible resident resides in the unit and is paying the tenant portion of the rent (that is, not during months in which the eligible resident has moved out of the unit), except that: ❖ Capitalized operating subsidies may continue for up to two months upon vacancy of an MHSA Housing Program unit that receives capitalized operating subsidies. ❖ Capitalized operating subsidies will continue if the MHSA eligible resident is in a hospital, an acute or long-term care facility, or other institutional setting for up to three months, provided the MHSA eligible resident is expected to return within the three-month period, and provided that the MHSA tenant portion of the rent is kept current; ❖ Capitalized operating subsidies will continue through the end of the three-month grace period following the date the MHSA eligible resident moves out of the unit when the eligible resident resides in the unit with other household members who are not MHSA eligible residents; and • If family members who are not MHSA eligible residents continue to reside in the unit after the MHSA eligible resident is no longer in residence, they must be given timely legal notice that (1) the capitalized operating subsidy will be

	terminated after the 3 month grace period; (2) that the unit rent will be will increase to the lease rate, or alternately, the market rent or the highest restricted rental rate; and (3) that the rent increase will be effective beginning three months after the receipt of the notice.
Asset Management	• CalHFA will hold capitalized operating subsidies in a reserve and disburse it according to the terms of the Capitalized Operating Subsidy Reserve Agreement. • Replacement reserves and regular operating reserves for the development will be held by CalHFA. This requirement may be waived at CalHFA's discretion. • Taxes and insurance will be impounded by CalHFA. This requirement may be waived at CalHFA's discretion. • All developments will be required to submit quarterly financial reports. This requirement may be waived, or more frequent reporting may be required, at CalHFA's discretion. • All mixed-use developments which receive an MHSA Capitalized Operating Subsidy Reserve will be required to submit bifurcated annual audits prepared by a certified public accountant in accordance with commonly accepted accounting standards. The audit must distinguish actual annual income and expenses of MHSA units that receive capitalized operating subsidies from those units that do not receive the subsidies. The audit requirement may be waived at CalHFA's discretion or alternately, CalHFA may, at its discretion, substitute a different form of financial certification for Shared Housing Developments and small Rental Housing Developments of 25 units or fewer.
Supportive Services	• The borrower must provide a clearly articulated supportive services delivery program. • The supportive services provided must be appropriate to MHSA eligible residents, and designed to assist those residents to live independently. • The borrower must have a commitment for supportive services funding from the county mental health department upon submission of the MHSA Housing Program loan application. • All developments must identify a qualified service provider that will provide supportive services to the residents. In the event that there are multiple service providers, the application must identify a primary service provider for the development. The borrower will be required to arrange for the provision of supportive services for the term of the MHSA Housing Program loan. • All applications must include a supportive services plan, which must meet MHSA Housing Program requirements and must be approved by DMH. • A supportive services budget, including staffing ratios, will be required by CalHFA ninety days prior to lease up or upon the closing of the MHSA Housing Program Loan, which ever is sooner. • The property management agent and the primary service provider may be

	the same entity, provided that there is a clear separation of staff and a clear delineation of their separate roles and responsibilities.
MHSA Housing Program Target Population & Certification Requirements	• DMH has defined the MHSA target population for the purposes of the MHSA Housing Program, as individuals who meet the following criteria: ❖ (1) Adults or older adults with serious mental illness as defined by Welfare and Institutions Code Section 5600.3(b). ❖ (2) Children and youth with severe emotional disorders as defined in Welfare and Institutions Code Section 5600.3(a). ❖ (3) In addition to meeting either (1) or (2) above, the individual shall be one of the following: ➢ Homeless, meaning living on the streets or lacking a fixed and regular night-time residence. This includes living in a shelter, motel or other temporary living situation in which the individual has no tenant rights. ➢ At risk of being homeless due to one of the following situations: (i) Transition age youth exiting the child welfare or juvenile justice systems. (ii) Discharge from crisis and transitional residential settings; a hospital, including acute psychiatric hospitals; psychiatric health facilities; skilled nursing facilities with a certified special treatment program for the mentally disordered; and mental health rehabilitation centers. (iii) Release from city or county jails. (iv) Temporary placement in a residential care facility upon discharge from (ii) or (iii) above. (v) Certification by the county mental health director as an individual who has been assessed by and is receiving services from the county mental health department and who has been deemed to be at imminent risk of being homeless. • The county mental health department shall determine the eligibility of individuals applying for tenancy in an MHSA unit for compliance with the target population criteria. • The county mental health department must certify the eligibility of individuals meeting target population criteria. Individuals who have been certified are MHSA eligible residents.
Application Process	All developments will be required to submit a completed application with all attachments. The application form will be posted on the DMH and CalHFA web sites. It will include MHSA Housing Program-specific requirements and the joint CalHFA, TCAC, CDLAC, and HCD application (“the Universal Application”). Please see the most recent term sheet on the CalHFA website at http://www.calhfa.ca.gov/multifamily/mhsa/index.htm.
Due Diligence	The due diligence reports listed below are required for all developments. Preparation of reports will be at the developer’s/ borrower’s expense: • A management contract with a qualified property management agent with experience with the target population.

	• A Memorandum of Understanding (MOU) between the developer, the primary service provider, the property management company and the county mental health department. The property management agent and the primary service provider may be related entities, provided there is a clear separation of staff and a clear delineation of their separate roles, staffing and responsibilities in the MOU. • A supportive services plan. • A supportive services budget, including staffing ratios, will be required as a condition of funding. • A commitment from the county mental health department for services funding on the form provided in Attachment H of the MHSA Housing Program Application. This form must be signed by the county mental health director. • Qualifications and evidence of experience with similar developments from the developer and development team members, together with resumes for their key personnel. • Three years of audited financials for the developer. • Evidence of Article 34 compliance, if applicable. • Property appraisal, market study, Phase I Report, and other studies as appropriate. • For acquisition or rehabilitation projects, the purchase appraisal may be accepted in lieu of an as-improved appraisal at CalHFA's discretion. • For Shared Housing Developments, appraisals must be submitted on a form appropriate for single family or small rental properties and must be prepared by a California licensed appraiser. • MAI commercial appraisals performed by a California licensed appraiser will be required for Rental Housing Developments. • Physical Needs Assessments, building inspection reports, sewer camera reports, roof reports, lead-paint, mold, asbestos, and structural (seismic) studies, as appropriate, for acquisition/ rehabilitation projects. For smaller shared housing developments, a building inspection report may replace the Physical Needs Assessment. • Some third party studies including physical need assessments and construction inspection contracts will be commissioned by CalHFA. • Plans and specifications will be required for new construction. Please see CalHFA's architectural recommendations on our website. New construction projects will be reviewed in accordance with these recommendations. • Plans and specifications and a narrative scope of work will be required for acquisition/rehabilitation developments. • Plans should provide for both supportive services space and office space for service staff, as appropriate, in Rental Housing Developments. • Plans and specifications are not required for Shared Housing Developments where rehabilitation is not required.

	Please see the MHSA guidelines for Shared Housing Developments Acquisition Rehabilitation Projects on our website. Acquisition Rehab Shared Housing Developments will be reviewed in accordance with those recommendations.
Predevelopment Loans	• Predevelopment loans of up to $500,000 will be available to all Rental Housing Developments that have received an MHSA Housing Program permanent loan commitment, have obtained all other permanent financing commitments, and can demonstrate site control and receipt of all required local planning approvals, except permits. • Predevelopment loans of up to $200,000 will be available to all Shared Housing Developments that have received an MHSA Housing Program loan commitment, have obtained other permanent financing commitments if applicable, and can demonstrate site control and receipt of all required local planning approvals, except permits. • Predevelopment loan amounts cannot exceed the MHSA Housing Program permanent loan commitment for the development. • All predevelopment loans in excess of $200,000 must be secured against the property. • Predevelopment loans of less than $200,000 may be secured against the property at CalHFA's discretion. • The predevelopment loan term will be two years from either permanent loan closing or predevelopment loan closing, whichever is sooner. • Interest will be 3% simple fixed. • Principal and interest will be deferred until permanent loan closing. • Predevelopment loan interest may be forgiven at permanent loan closing if MHSA funds are used for permanent financing. • Predevelopment loan funds will be available for predevelopment costs necessary to complete due diligence required for construction loan closing or permanent financing. Examples of eligible predevelopment costs include engineering studies, Phase 2 studies, and architectural fees, legal fees and the 1% MHSA Housing Program loan fee. • Staffing costs, purchase option costs, and all costs associated with site acquisition are not eligible costs for predevelopment loans. • If the MHSA permanent loan does not fund, the predevelopment loan principal and all accrued interest shall be due at the time of the predevelopment loan's maturity.
Reporting	• County mental health departments must meet all DMH Outcomes Reporting requirements. • The primary service provider and borrower will be required to provide information regarding supportive services delivery to and housing outcomes for MHSA eligible residents, on an MHSA Housing Program Annual Self-Certification form (see CalHFA website).

	• Developments will be required to provide on the MHSA Housing Program Annual Self-Certification data on tenant access to housing rental and operating subsidies and benefits programs, including but not limited to the number of MHSA eligible residents who: ❖ Are on the Section 8 waiting list, ❖ Are enrolled in the Section 8 voucher program, ❖ Are receiving SSI/SSP, ❖ Have an application in progress for, but are not yet receiving, SSI/SSP, and ❖ Have applied for or are receiving other benefits to which they are entitled.
Exception Process	CalHFA may grant exceptions to MHSA Housing Program requirements upon written request from the county mental health department and/or the sponsor/borrower. Unless prior written approval is received from CalHFA, the county mental health department and the sponsor/borrower must maintain compliance with all program regulations and requirements. It should be noted that only the county mental health department may request an increase in the allowable maximum loan amount. No exceptions will be considered for any form of leased housing, deviations from serving the target population or from the approved housing types. CalHFA may exempt the county mental health department and/or the sponsor/borrower from compliance with any program regulations or requirements upon receipt of a submittal substantiating evidence supporting the request and justifying the proposed alternative. Within 30 days of receipt of a request for an exception, CalHFA will notify the county mental health department and/or the sponsor/borrower, in writing that either (1) the request with substantiating evidence has been received and accepted for consideration, or (2) the request is deficient. If the request is deficient, CalHFA will describe the additional information required for the request to be acceptable and establish a timeframe for receipt of the additional information. If the county mental health department and/or the sponsor/borrower fail to comply with the CalHFA-established timeframe for submission of additional information, the exception request will be denied. Within 30 days of receipt of an acceptable request for an exception, CalHFA will notify the county mental health department and/or the sponsor/borrower, in writing, whether the request has been approved, denied, or accepted with conditions and modifications.
Questions	CalHFA will administer this housing program for DMH under an interagency agreement between the two agencies in accordance with DMH regulations, which are currently being promulgated. Financing questions regarding the MHSA Housing Program may be directed to

	CalHFA's Multifamily Programs Division: Kathy Weremiuk, Special Lending Program Manager Phone: (310) 342-1256; Fax: (310) 342-1225 Email: kweremiuk@calhfa.ca.gov Nanette Guevara, Loan Officer Phone: (916) 324-9844; Fax: (916) 327-5115 Email: nguevara@calhfa.ca.gov Tina Ilvonen, Loan Officer Consultant Phone: (206) 517-9961; Fax: (206) 517-3141 Email: tilvonen@calhfa.ca.gov Questions on the Mental Health Services Act and DMH regulations may be directed to DMH's MHSA Special Projects unit: Jane Laciste, Chief, Special Projects Phone: (916) 654-3529 Email: jane.laciste@dmh.ca.gov

IMPORTANT DISCLOSURE INFORMATION:

The information provided in this program description is for guidance only. While we have taken care to provide accurate information, we cannot cover every circumstance or program nuance of the MHSA Housing Program, the Mental Health Services Act and the regulations enacted under it by DMH, and/or housing law. This program description is subject to change from time to time without prior notice. 04/08